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Washington Department of Ecology

Air Quality Program

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SUBMITTED VIA ECOLOGY WEBSITE:

<http://www.ecy.wa.gov/programs/air/rules/wac173442/150inv.html>

RE: CARBON CAP RULE, CHAPTER 173-442 WAC

The Northwest Gas Association (NWGA) is a trade association representing the four regulated, investor-owned local distribution companies (LDCs), referred to in the proposed rule as natural gas distributors (NGDs), and two natural gas transmission pipelines operating in Washington State. Collectively, our members employ more than 4,500 individuals in Washington State and serve more than 1.2 million residential, commercial and industrial natural gas consumers.

We support public and private sector efforts to reduce air pollution and greenhouse gas (GHG) emissions. In fact, recent GHG emission reductions across the U.S. are credited to the abundance, availability and affordability of natural gas, demonstrating that it is a key part of the solution to climate change immediately and in the long term. Unfortunately, the rulemaking under development by the Department of Ecology (Ecology), Chapter 173-442, Clean Air Rule (CAR), moves the state in entirely the wrong direction. We appreciate the opportunity to provide the following comments on the carbon cap rule.

Authority to Regulate

The NWGA questions the general applicability of the authorities cited by Ecology to establish a cap on carbon emissions. More specifically, we question Ecology's authority to indirectly regulate the emissions of natural gas consumers through LDCs. LDCs deliver a commodity to consumers. They do not combust natural gas except in small volumes as part of their operations. The carbon emitted directly by any one of the four LDCs in Washington State does not even begin to approach 100,000 tons per year (Mt/y), the initial threshold at which a party will fall under the cap. The LDC's responsibility ends with safely and reliably delivering the commodity to the more than 1 million homes, businesses and institutions they serve. LDCs deliver natural gas; families, enterprises, schools and government institutions burn it.

Compliance

Of the three compliance pathways spelled out in the rule, only the purchase or generation of emission reduction units (ERUs) are viable options for LDCs. With more than 1.3 million consumers connected to their delivery systems, on-site emission reductions are impossible to implement or to verify. Mechanisms allowing an LDC to limit the emissions of its consumers if the emissions cap is in jeopardy of being exceeded simply do not exist.

Furthermore, LDCs have an obligation to safely and reliably deliver natural gas to consumers when demanded, in the volumes demanded (RCW 80.28.010[2]). This sets the LDCs apart from other

covered entities. LDCs deliver natural gas when their consumers demand it. LDCs do not control consumer decisions to heat space and water and to cook food. Families will warm their homes and schools their classrooms when it's cold outside, regardless of the limits imposed by the CAR.

The CAR allows for the purchase or generation of ERUs, the mechanisms most likely to be exercised by LDCs to comply with the rule. The NWGA questions the authority of Ecology to designate or accept ERUs. In addition, Ecology is betting on a robust market for ERUs where none exists today. The closest proxy is the market for renewable energy credits (RECs) which, according to the comments submitted by several NWGA members, are an extremely expensive compliance mechanism (e.g. see pages 26-27 of Puget Sound Energy's (PSE) comments, submitted on July 22, 2016).

In addition, the NWGA questions whether the market for RECs will be able to accommodate the influx of new demand without blowing out the REC price. For instance, the anticipated compliance obligation of Washington's LDCs in 2020 will be more than 4 million RECs, double the number generated in Washington in 2015. That figure balloons to 14 million RECs by 2035, representing all new demand for RECs without an associated or identified source. The NWGA wonders how Ecology can maintain that the cost of a REC will average \$3 in the face of these numbers. Finally, in the existing iteration of the rule, Ecology will exacerbate the problem of a limited market by placing geographic limitations on the purchase and generation of ERUs.

As for generating ERUs, the NWGA is hard pressed to identify opportunities to invest in emission reduction projects in Washington State that are consistent with the business model of regulated utilities. One might argue that Washington natural gas consumers could generate RECs by building wind farms in order to secure the RECs necessary to comply with the CAR. As absurd as that sounds, it is a real possibility referenced in the comments of both of Washington's dual fuel utilities, Avista, and PSE.

One potential opportunity exists in the transportation sector which produces the majority of greenhouse gas emissions in our economy. Natural gas is an affordable, clean burning transportation fuel that can make an immediate and meaningful impact in fleets, heavy and mid-duty vehicles, and in marine applications. The state should promote these emission reduction opportunities and the rule should explicitly allow and account for LDC investments in compressed and liquefied natural gas vehicles and infrastructure. Yet, the rule as currently constituted is notably silent in this regard.

Finally, the CAR fails to adequately account for weather variations and does not accommodate organic growth of natural gas demand. It is also wrong-headed with regard to how it will treat the emissions of covered entities when they fall below the compliance threshold. Rolling the residual emissions of covered entities in to the baseline calculations of LDCs will wreak havoc on the ability of LDCs to comply and will certainly drive costs for all other natural gas consumers significantly higher. We hold the same concern relative to the emissions of energy intensive, trade dependent industries during the compliance deferral period they enjoy in the CAR as currently composed.

Economic Impacts

According to the Association of Washington Business's (AWB) economic analysis conducted by Energy Strategies (ES), Ecology's analysis grossly underestimates the economic impact this rule will have on families and businesses in Washington State. There are more than 100,000 commercial natural gas consumers in Washington State that will be affected by this rule, the majority of which are small businesses such as restaurants and dry cleaners. The ES analysis projects that the rule will cost the state 34,000 jobs and more than \$7 billion by 2035.

As noted above, the CAR will inevitably add costs to energy bills all across the state. Tragically, those additional costs will fall hardest on the people that can least afford it. More Washington families will have to choose between food and warmth as a result of this rule.

Environmental Impacts

Natural gas is among the cleanest burning fuels available for all applications. When compared with coal and oil, natural gas produces 50 and 30 percent fewer GHG emissions respectively, and almost no particulates, NOx or SOx. Furthermore, natural gas is one of the most efficient delivered energies available. End use appliances in homes and businesses such as furnaces, water heaters or boilers and cooktops are also highly efficient. Clean, efficient energy delivery and use means fewer GHG emissions per unit of energy consumed.

Higher costs may motivate consumers to switch to less optimal energy resources for applications currently fueled by natural gas; sources that could include less energy efficient fuels and/or those with higher CO2 and other GHG constituents that may not be subject to regulation. The result would effectively amount to emissions "leakage" within our own state. For instance, individuals particularly sensitive to price increases may switch to wood as a heat source, increasing particulate emissions and exacerbating air quality issues. In any case, it is entirely likely that the CAR will in fact promote less optimal, less efficient, higher emitting energy use.

Regulatory Treatment

There seems to be an underlying assumption running through the CAR that LDCs are free to pursue whatever remedies are available without regard to cost. In fact, LDCs are utilities regulated by the Washington Utilities and Transportation Commission (UTC) under RCW 80.28. LDCs are not allowed to recover costs or earn a return on investments in infrastructure without the explicit approval of the UTC. There are no mechanisms in the current CAR that link UTC action to LDC compliance.

Conclusion

NWGA members each have provided detailed comments on the CAR, accompanied by exhaustive analyses of the certain and potential impacts we reference herein. We hope Ecology will give every consideration to their genuine efforts and truthful information.

RCW 43.21F.088 (1)(d) states the principle that natural gas is a cleaner energy source that should be developed to help the state reduce its dependence on other fossil fuels. We encourage Ecology and the State to abandon its efforts to indirectly regulate the emissions of natural gas consumers through LDCs and instead to acknowledge and promote the vital role of natural gas as a tool in reducing statewide emissions across all sectors.

Again, we appreciate the opportunity to submit comments on the CAR as circulated.

Sincerely,

A handwritten signature in blue ink, appearing to read "Dan Kirschner", with a stylized flourish at the end.

Dan Kirschner, Executive Director
Northwest Gas Association